

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 H-03 L-03 PA-04 PRS-01 USIA-15 DRC-01 /169 W

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P R 011635Z AUG 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 6230

INFO USMISSION EC BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

USMISSION OECD PARIS

TREASURY DEPARTMENT WASHDC PRIORITY

UNCLAS SECTION 1 OF 2 ROME 10587

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: 1975 ITALIAN BUDGET SENT TO PARLIAMENT

REF.: ROME A-583 OF OCTOBER 11, 1973

1. /SUMMARY./ ON JULY 31, GOI COUNCIL OF MINISTERS APPROVED AND FORWARDED TO PARLIAMENT 1975 BUDGET. BUDGET SHOWS VERY SMALL DECREASE IN GOVERNMENT DEFICIT, AS GOVERNMENT RECEIPTS ARE PROJECTED TO RISE BY 28 PERCENT OVER 1974 AND GOVERNMENT EXPENDITURES (FOLLOWING SIGNIFICANT PRUNING OF "NON-ESSENTIAL" SPENDING PROGRAMS) ARE PROJECTED TO RISE BY 20 PERCENT OVER 1974. INCREASE FOR CAPITAL SPENDING (19.7 PERCENT) IS HIGHER THAN FOR CURRENT EXPENDITURES (16.3 PERCENT). THUS, GOVERNMENT BUDGET DEFICIT WOULD BE REDUCED BY 3 PERCENT FROM 1974. HOWEVER, INCLUDING DEFICITS OF AUTONOMOUS AGENCIES AND EXTRA-BUDGETARY EXPENDITURES, GLOBAL 1975 DEFICITS WOULD BE SLIGHTLY HIGHER THAN IN 1974 (UP 1.7 PERCENT). /END SUMMARY./

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2. SUMMARY LIRE FIGURES FOR 1975 BUDGET AND COMPARABLE 1974 DATA

FOLLOW. (DOLLAR EQUIVALENTS FOR SOME TOTALS SHOWN IN PARENTHESES HAVE BEEN CALCULATED FOR BOTH YEARS AT LIRA RATE OF EXCHANGE OF 581.5 LIRE PER DOLLAR.) DATA BREAKDOWN BY FUNCTION AND MINISTRY ARE NOT AVAILABLE. EMBASSY WILL REPORT THIS INFORMATION AT LATER DATE. AS IN PAST, PARLIAMENT WILL NOT BEGIN BUDGET DEBATE UNTIL FALL, AND FINAL APPROVAL NOT EXPECTED UNTIL SPRING OF 1975.

/TABLE/
/BILLIONS OF LIRE/
(BILLIONS OF DOLLARS)

/RECEIPTS/	/1974	1975	PERCENT CHANGE/
TAXES & NON-TAX	16,930.3	21,002.2 PLUS	24.1
SALE OF PROP.,			
REIMB. AMORT	50.7	59.3 PLUS	17.0
RENEWAL TEAS.	300.5	1,035.0 PLUS	244.4
BONDS			
LOANS	5.0	5.1 PLUS	2.0

TOTAL RECEIPTS	17,286.5	22,101.6 PLUS	27.9
	(\$29.7)	(\$38.0)	

/EXPENDITURES/

CURRENT EXPEND.	19,463.8"	22,633.3 PLUS	16.3
CAPITAL EXPEND.	3,107.0"	3,719.2 PLUS	19.7
REPAYMENT OF DEBT	961.9	1,813.1 PLUS	88.5

TOTAL EXPENDITURES	23,532.7	28,165.6 PLUS	19.7
	(\$40.5)	(\$48.4)	

A. GOVERNMENT

DEFICIT	6,246.2	6,064.0 MINUS	2.9
	(\$10.7)	(\$10.4)	

B. AUTONOMOUS AGEN-
CIES' DEFICIT

(POST, RAILRDS, ETC.)	1,129.2	1,309.0 PLUS	15.9
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(\$1.9)	(\$2.3)
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COMBINED DEFICIT

(A&B)	7,375.4	7,373.0	"
	(\$12.7)	(\$12.7)	

/EXTRA-BUDGETARY
EXPENDITURES/

-BASED ON LEGISLA-

TIVE REQUIREMENT 1,230.7 1,382.2 PLUS 12.3

DEFICIT INCLUDING (\$2.1) (\$2.4)

EXTRA-BUDGETARY

EXPENDITURES 8,606.1 8,755.5 PLUS 1.7

(\$14.8) (\$15.1)

"SLIGHTLY REVISED FROM REFAIR

3. 1975 CURRENT BUDGET EXPENDITURES ARE PROJECTED AT 80.4 PERCENT OF TOTAL EXPENDITURES, COMPARED WITH 82.7 PERCENT IN 1974. GOVERNMENT SAVINGS(REVENUE LESS CURRENT EXPENDITURES) WILL BE SMALLER NEGATIVE ITEM THAN LAST YEAR GOING FROM DEFICIT OF 2,568 BILLION LIRE IN 1974 TO DEFICIT OF 1,631 BILLION IN 1975. TOTAL GOVERNMENT BUDGET EXPENDITURES WOULD AMOUNT TO 28,166 BILLION LIRE (23,533 BILLION LIRE IN 1974). TAX AND NON-TAX REVENUES ARE EXPECTED TO RISE BY 24 PERCENT IN 1975 AND TOTAL GOVERNMENT RECEIPTS ARE ESTIMATED AT 22,102 BILLION LIRE. (REVENUE FIGURES IN 1975 BUDGET TAKE INTO ACCOUNT EXPECTED RECEIPTS FROM 3,000 BILLION LIRE TAX AND PUBLIC UTILITY RATE STABILIZATION MEASURES INTRODUCED IN EARLY JULY AND NOW IN PROCESS OF RATIFICATION IN PARLIAMENT.) AFTER ACCOUNTING FOR DEFICITS OF AUTONOMOUS AGENCIES (STATE RAILWAYS 701 BILLION LIRE AND POST AND TELECOMMUNICATIONS 608 BILLION LIRE), TOTAL EXPENDITURES WOULD RISE TO 29,475 BILLION LIRE. THUS, RESULTING BUDGETARY DEFICIT WOULD BE 7,373 BILLION LIRE, REPRESENTING MODEST REDUCTION OF 2.4 BILLION LIRE FROM 1974 DEFICIT OF 7,375 BILLION LIRE. FINALLY, INCLUDING EXTRA BUDGETARY EXPENDITURES, GLOBAL EXPENDITURES WOULD BE 30,857 BILLION LIRE AND GLOBAL DEFICIT WOULD BE 8,755 BILLION LIRE. THIS COMPARES WITH 8,606 BILLION LIRE IN 1974.

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4. IN PRESS COMMENTS MADE ON 31 JULY, BUDGET MINISTER GIOLITTI STATED THAT SMALL 2.4 BILLION LIRE REDUCTION IN GOVERNMENT DEFICIT REFLECTED "RUTHLESS AMPUTATION" OF NON-ESSENTIAL SPENDING PROGRAMS AND ALSO REFLECTED INTENTIONS OF TAX ADMINISTRATION TO INTENSIFY EFFORTS TO BUDGET SHOULD BE VIEWED PRINCIPALLY AS EFFORT BY GOI TO COMPLEMENT OTHER PROGRAMS AIMED AT SOLVING ECONOMIC PROBLEMS OF COUNTRY. HENCEFORTH BUDGETS WILL BE CONDITIONED MORE THAN EVER BY NEED TO CONTROL SPENDING WHILE AT SAME TIME INCREASING REVENUES SUBSTANTIALLY. GIOLITTI ADDED THAT 1975 BUDGET REPRESENTS RADICAL DEPARTURE FROM PAST IN REDUCING LEVEL OF SPENDING WHICH HAD BECOME "UNCONTROLLABLE AND UNBEARABLE." 1975 BUDGET ALSO SHOULD BE CONSIDERED AS "TRANSITION" BUDGET, PERMITTING GOI TO MOVE AHEAD WITH EFFORTS TO SOLVE ITALY'S CURRENT ECONOMIC PROBLEMS, WHILE AT SAME TIME BEGINNING A RESTRUCTURING OF PUBLIC FINANCES.

5. IN SIMILAR COMMENTS MADE TO PRESS ON 31 JULY, TREASURY MINISTER COLOMBO DESCRIBED 1975 BUDGET AS ONE OF "SIGNIFICANT AUSTERITY" IN THAT SPENDING MEASURES HAVE BEEN DRASTICALLY REDUCED TO COINCIDE WITH AVAILABLE RESOURCES, BEARING IN MIND...

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INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 H-03 L-03 PA-04 PRS-01 USIA-15 DRC-01 /169 W

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P R 011635Z AUG 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 6231

INFO USMISSION EC BRUSSELS

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TREASURY DEPARTMENT WASHDC PRIORITY

UNCLAS SECTION 2 OF 2 ROME 10587

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.....MIND NEED TO COMBAT INFLATION AND REDRESS BALANCE OF PAYMENTS. COLOMBO STATED THAT ITALY STILL FACES SERIOUS ECONOMIC PROBLEMS, IN PARTICULAR THAT OF INCREASED COST OF PETROLEUM. HE ADDED THAT BY END OF 1975 GOI INTENDS TO ELIMINATE "NON-OIL" BALANCE OF PAYMENTS DEFICIT. HOWEVER, MAJOR PROBLEM REMAINS OF HOW TO FINANCE OIL-RELATED DEFICIT IN 1975 AND THEREAFTER.

6. /COMMENT./ ITALIAN BUDGETS ESSENTIALLY ARE LEGAL DOCUMENTS

WHICH ARE LITTLE MORE THAN STATEMENTS OF INTENT. THEY ARE OF LIMITED VALUE IN ASSESSING ACTUAL ECONOMIC IMPACT OF PUBLIC EXPENDITURES. APPROPRIATIONS ARE FOR EXPENDITURES WHICH WILL BE MADE OVER SEVERAL YEARS AND ASSESSED REVENUES WILL ALSO BE COLLECTED OVER SEVERAL YEARS. UNFORTUNATELY, THERE IS NO INFORMATION

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AVAILABLE AS YET TO INDICATE SIZE OF ACTUAL CASH BUDGET DEFICIT FOR 1975. DEFICIT IN 1973 WAS ABOUT 7,730 BILLION LIRE. ROUGH ESTIMATE OF 9,200 BILLION LIRE IS STILL BEING CITED FOR 1974. LATTER VERY LARGE ESTIMATED DEFICIT WAS LARGELY RESPONSIBLE FOR GOI'S DECISION TO INTRODUCE TAX AND UTILITY RATE PACKAGE OF MEASURES IN EARLY JULY. ALTHOUGH FINAL CASH DEFICIT FOR 1974 IS VERY HARD TO PREDICT AND IS USUALLY LARGER IN LATTER PART OF YEAR THAN IN EARLY MONTHS, ACTUAL CASH DATA FOR FIRST FIVE MONTHS OF 1974 SHOWS SURPRISINGLY SMALL DEFICIT. THUS, CASH DEFICIT THROUGH MAY 1974 AMOUNTED TO 1,194 BILLION LIRE (COMPARED TO 2,067 BILLION LIRE IN SAME PERIOD OF 1973).

7. GIVEN USUAL RIGIDITIES IN BUDGET EXPENDITURES, 1975 APPROPRIATIONS BUDGET MAY BE DESCRIBED AS FAIRLY AUSTERE IN FACE OF CONTINUING INFLATION AND BALANCE OF PAYMENTS PROBLEMS. MAJOR UNCERTAINTIES EXIST REGARDING REVENUE IMPACT OF DIRECT TAX REFORM OF 1974 AND EVEN OF EFFECTS OF 1973 INDIRECT TAX REFORM. ALSO, REVENUE EFFECTS OF FISCAL MEASURES UNDERGOING RATIFICATION PROCESS IN PARLIAMENT ARE ALSO UNCERTAIN. ON EXPENDITURE SIDE, 20 PERCENT INCREASE IN CURRENT AND CAPITAL EXPENDITURES IN MONEY TERMS SUGGESTS THAT THERE WILL BE LITTLE, IF ANY, RISE IN REAL TERMS BECAUSE OF EXPECTED PRICE INCREASES IN 1975. GOI IS STRESSING POINT THAT, FOR FIRST TIME IN SEVERAL YEARS,

GOVERNMENT BUDGET DEFICIT IS FORECAST TO DECLINE FROM LEVEL OF PREVIOUS YEAR. SIZE OF DECLINE IS, OF COURSE, MINISCULE AND SUBJECT TO LARGE ERROR IN PRACTICE. STILL, SERIOUS GOI EFFORT HAS BEEN MADE TO RESTRICT EXPENDITURES, WHICH IS LAUDABLE AND IS IMPORTANT PSYCHOLOGICALLY AS EVIDENCE OF DETERMINATION TO DEAL WITH ITALY'S SERIOUS FINANCIAL PROBLEMS. VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, CABINET MEETINGS, BUDGET DATA, BALANCE OF PAYMENTS POLICIES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME10587
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740210-0086
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740882/aaaacsjo.tel
Line Count: 264
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: : ROME A-583 OF OCTOBER 11, 1973
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2002 by reddocgw>; APPROVED <24 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: 1975 ITALIAN BUDGET SENT TO PARLIAMENT
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005